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ROUTING AND RECORD SHEET

SUBJECT: (Optional)
Hearing on S. 1127: The impact of the Medicare Castastrophic Health Care Bill

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2. A/DD/PA&E/OP	10/13		[illegible]	
3. DD/CAP EA/DDA		10/13	[illegible]	
4. EXA/DA [redacted]	20 OCT 1987	21 OCT 1987	cw	
5. DDA	21 OCT 1987		[illegible]	
6. ADDA			[illegible]	
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OCA 87-5012
23 September 1987

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MEMORANDUM FOR THE RECORD

SUBJECT: Hearing on S. 1127: The Impact of the Medicare Catastrophic Health Care Bill

1. On 23 September 1987 in Room SD-342 SDOB, Senator David Pryor (D-AR) chaired a meeting of the Subcommittee on Federal Services, Post Office and Civil Service to consider the effect of S. 1127 on federal retirees. No other members of the subcommittee were present.

2. Senator Pryor heard from three panels of witnesses. These panels were made up of Members of Congress on the Federal Employees Task Force and the Office of Personnel Management (OPM); representatives of health care providers; and federal employee unions. The Congressional witnesses included:

Senator William Roth (R-DE) who cautioned against the dangers of trying to help one group of annuitants while hurting another group. He feels that this bill will significantly hurt Civil Service and military annuitants with a "double whammy" in taxation. The Senate should be fair and sure that it can adequately finance any change to the current program without increasing the cost to annuitants.

Senator Barbara Mikulski (D-MD) condemns this bill as taxation double dipping. She wonders how the federal government will be able to recruit and retain new federal employees if young people see how poorly the government treats their grandparents (federal annuitants). Senator Mikulski's opening statement is attached.

Representative Steny Hoyer (D-MD) is against the bill and says the effects are not limited to federal workers.

Representative Frank Wolf (R-VA) registered his displeasure with the bill.

Representative Tom McMillan (D-MD) is also against the bill.

Representative Constance Morella (R-MD) has requested a GAO study to assess the potential damage from this bill. Her opening statement is attached.

Senator Paul Sarbanes (D-MD) asked that his remarks be read into the record.

Senator Pryor also asked that the Mike Causey article in today's Washington Post (23 Sept 87) be placed in the hearing record. (attached)

3. Other witnesses included: Robert Tobias, national president of the National Treasury Employees Union, (statement attached); Larry Waligora, manager of the National Rural Letter Carriers' Association (statement attached); Charles Bell, Aetna Insurance; Erling Hansen, general counsel of the Group Health Association of America, Inc.; Harry Cain, II, senior vice president of the Blue Cross and Blue Shield Association (statement attached); and H.T. Steve Morrissey, president of the National Association of Retired Federal Employees (statement attached).

4. Today's witnesses were united in their opposition to the bill. They felt that assessing federal annuitants for catastrophic health care coverage is essentially double taxation for a program already covered for federal employees. Furthermore, the witnesses expect that many annuitants will undoubtedly opt out of their current health plans for economic reasons and be covered exclusively by Medicare. The net effect of this move will increase the insurance premiums for health care programs and when this happens, the Congress will have inadvertently increased the pool of under-insured American elderly.

5. Senator Pryor expects to hold additional hearings.

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WASHINGTON POST

THE FEDERAL DIARY

Double Burden in Plan

By Mike Causey
Washington Post Staff Writer

Millions of retired federal, state and local government workers could be rescued from paying double premiums for double catastrophic health insurance protection under a plan in the works in the Senate.

Before the Labor Day recess, the House passed a catastrophic health insurance protection bill. It would be financed by raising Medicare premiums. The House plan also raises premiums for the optional part B of Medicare—which pays doctor bills and covers prescriptions—to about $24 a month, a rise of about 38 percent.

The House bill extends catastrophic health insurance protection to people 65 and older through Medicare. Premiums would be based on the person's taxable income. Since most government and private pensions are taxable, persons who draw most of their income from that source would pay more for coverage than those whose income comes largely from untaxed Social Security benefits.

In addition to paying more, most federal, state and local government retirees have catastrophic health protection as part of government-backed health plans for which they already pay. Insurance premiums under the federal employes-retirees health program are due to go up an average of 31 percent in January.

Hearings begin today on the impact of the catastrophic coverage plan on government retirees before the Senate subcommittee on federal services, post office and civil service. The subcommittee is headed by Sen. David Pryor (D-Ark.).

At a breakfast yesterday, Sen. Lloyd Bentsen (D-Tex.) said, "I think they [government retirees] have a point" in their complaints about the double coverage and double premiums provided under the House plan. Bentsen heads the Senate Finance Committee, which will control the catastrophic health care bill in the Senate.

Ideally, government retirees would like to be exempt from the plan, or have it written so that participation is optional. If not, the plan is to come up with some kind of formula that would somehow reduce their premiums if the catastrophic health coverage bill becomes law.

Job Mart

The Justice Department needs clerk-typists, Grades 3 and 4; an operating accountant, GS 5 through 9; a contract specialist, GS 13; personnel management specialist, GS 9 through 12; a management assistant, GS 5 through 7; personnel actions clerk, GS 4 through 6 and a secretary (typing) GS 5/6. Call 724-7730.

The National Weather Service has full- and part-time openings in Silver Spring for secretaries and clerk-typists, GS 4 through 7. Call 427-7165.

Air Force has Pentagon openings for a GS 12 computer programmer analyst, and a GS 5/7 secretary (typing). Call 695-4389.

Meetings

D.C. Council member **John A. Wilson** will speak at 12:30 p.m. Saturday at a meeting of the National Association of Retired Federal Employees. The meeting is at the Francis Gregory Library. Call 882-8230.

NARFE National Secretary **Gordon Brown** will talk about catastrophic health insurance protection at 1:30 p.m. Oct. 3 at a meeting of the association's downtown chapter. The place is the 19th Street Baptist Church, 4040 16th St. NW.

ADDITIONAL COST IN NEW PREMIUMS
VS
AVERAGE BENEFITS PAYABLE

SENATE PLAN

Assumptions compare the income of a Civil Service retiree (CS) with a Private Sector retiree. A $6000.00 Social Security benefit (SS) is used, as this is close to the average currently payable. Retirees are assumed to be age 65 and single. The new supplemental premium is figured by using the 1989 rate of $1.14 per month for each $150.00 of tax liability. Tax liability was arrived at by using $6000.00 as an average combined standard deduction and personal exemption, then utilizing a tax rate of 15%. Projected new costs and new benefits are for calendar year 1989.

	Civil Service Retiree	Private Sector Retiree
Annual Income	$14,000.00 (all CS)	$14,000.00 ($6000 SS, 8000 other)
Part B Increase	54.00	54.00
New Supplemental Premium Increase	109.44	27.36
Total New Cost	163.44*	81.36*
CBO Projected New Benefit	140.00	140.00
Annual Income	$20,000.00 (all CS)	$20,000.00 ($6000 SS, 14000 other)
Part B Increase	54.00	54.00
New Supplemental	191.52	109.44
Total New Cost	245.52*	163.44*
CBO Projected New Benefit	124.00	124.00
Annual Income	$25,000.00 (all CS)	$25,000.00 ($6000 SS, 19000 other)
Part B Increase	54.00	54.00
New Supplemental	259.92	177.84
Total New Cost	313.92*	231.84*
CBO Projected New Benefit	124.00	124.00

*Total new cost figures do not include the estimated $6.90 per month Part B increase ($82.80 per person for 1988) if the premium goes from $17.90 to $24.80, as projected by the Department of Health and Human Services.

National Association of Retired Federal Employees 9/21/87

ADDITIONAL COST IN NEW PREMIUMS VS AVERAGE BENEFITS PAYABLE

HOUSE PLAN

Assumptions compare the income of a Civil Service (CS) Retiree with a Private Sector Retiree. The amount of the new supplemental premium is based on adjusted gross income. The Part B premium increase becomes effective in 1989. A $6000.00 Social Security benefit (SS) is used, as this is close to the average currently payable, and is deducted when figuring the adjusted gross income for the Private Sector Retiree. Retirees are assumed to be age 65 and single. Projected benefits and new costs are for calendar year 1989, except for supplemental (1988 rates) for which 1989 figures are not yet available.

	Civil Service Retiree	Private Sector Retiree
Annual Income	$7,200.00 (all CS)	$7200.00 ($6000 SS, 1200 other)
Part B Increase ($2.60 x 12)	31.20	31.20
New Supplemental Premium (Increase - 1988 rates)	90.00	.00
Total New Cost	$121.20*	$31.20*
CBO Projected New Benefit	$254.00	$254.00
Annual Income	$10,000.00 (all CS)	$10,000.00 ($6000 SS, 4000 other)
Part B Increase	31.20	31.20
New Supplemental-1988 rates	280.00	.00
Total New Cost	311.20*	31.20*
CBO Projected New Benefit	234.00	234.00
Annual Income	$15,000.00 (all CS)	$15,000.00 ($6000 SS, 9000 other)
Part B Increase	31.20	31.20
New Supplemental-1988 rates	580.00	210.00
Total New Cost	611.20*	241.20*
CBO Projected New Benefit	228.00	228.00
Annual Income	$20,000.00 (all CS)	$20,000.00 ($6000 SS, 14000 other)
Part B Increase	31.20	31.20
New Supplemental-1988 rates	580.00	560.00
Total New Cost	611.20*	591.20*
CBO Projected New Benefit	216.00	216.00

*Total new cost figures do not include the estimated $6.90 per month Part B increase ($82.80 per person for 1988) if the premium goes from $17.90 to $24.80, as projected by the Department of Health and Human Services.

National Association of Retired Federal Employees 9/21/88

CONSTANCE A. MORELLA
8TH DISTRICT, MARYLAND

Congress of the United States
House of Representatives
Washington, DC 20515

TESTIMONY OF

CONGRESSWOMAN CONSTANCE A. MORELLA

BEFORE THE SENATE SUBCOMMITTEE ON FEDERAL SERVICES,

POST OFFICE, AND CIVIL SERVICE

SEPTEMBER 23, 1987

MR. CHAIRMAN, I APPRECIATE THIS OPPORTUNITY TO REITERATE MY DEEP CONCERN WITH THE IMPACT OF THE MEDICARE CATASTROPHIC PROTECTION ACT ON FEDERAL RETIREES.

AS A MEMBER OF THE HOUSE COMMITTEE ON THE POST OFFICE AND CIVIL SERVICE, A MEMBER OF THE EXECUTIVE BOARD OF THE FEDERAL GOVERNMENT SERVICE TASK FORCE, AND A REPRESENTATIVE OF 26,000 FEDERAL RETIREES IN MONTGOMERY COUNTY, MARYLAND, I AM PARTICULARLY CONCERNED THAT THE PROBLEMS IN THIS BILL BE RESOLVED BEFORE THIS LEGISLATION REACHES FINAL APPROVAL.

AS THE TESTIMONY OF THE FEDERAL GOVERNMENT SERVICE TASK FORCE INDICATES, THESE FEDERAL RETIREES WOULD BE REQUIRED TO PAY PREMIUMS FOR HEALTH BENEFITS WHICH THEY ALREADY RECEIVE THROUGH THE FEDERAL EMPLOYEE HEALTH BENEFITS PROGRAM AND TO PAY A HIGHER INCOME-RELATED PREMIUM THAN SOCIAL SECURITY RECIPIENTS, BECAUSE FEDERAL PENSIONS ARE TAXED UNDER THE FORMULA. THIS DOUBLE HIT WOULD TAKE PLACE AT A TIME WHEN MEDICARE PREMIUMS ARE SCHEDULED TO INCREASE BY 38.5% NEXT YEAR, AND WHEN PREMIUMS FOR THE FEDERAL EMPLOYEE HEALTH BENEFITS PROGRAM ARE SLATED TO RISE BY AN AVERAGE OF 31 PERCENT.

MR. CHAIRMAN, THIS BURDEN IS MORE THAN ANYONE SHOULD BE EXPECTED TO BEAR. THESE RETIREES LIVE ON FIXED INCOMES AND CAN HARDLY AFFORD TO PAY TWICE FOR THEIR HEALTH BENEFITS. I URGE THE SUBCOMMITTEE AND THE SENATE IN GENERAL TO WORK WITH INTERESTED HOUSE MEMBERS TO RESOLVE THIS SITUATION. WHILE THERE IS NO IMMEDIATE SOLUTION IN SIGHT, THIS PROBLEM CANNOT BE OVERLOOKED IN THE RUSH TO APPROVE THIS EXPANSION IN MEDICARE BENEFITS.

MR. CHAIRMAN, I URGE YOU AND THE OTHER MEMBERS OF THE SUBCOMMITTEE TO REMEMBER THE FEDERAL RETIREE...WE MUST NOT FORCE THIS IMPORTANT GROUP TO SACRIFICE ONCE AGAIN.

ILLEGIB

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FROM: Blue Cross and Blue Shield Association
1709 New York Avenue, N.W.
Washington, D.C. 20006

For release Wednesday, September 22, 1987

CONTACT: Charlotte Crenson
(202) 783-6257

FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM IN NEED OF REFORM

(WASHINGTON)--In testimony today before the Senate Subcommittee on Federal Services, Post Office, and Civil Services, which is reviewing the effect of Medicare catastrophic insurance proposals on federal retirees, Harry P. Cain, II, senior vice president of the Blue Cross and Blue Shield Association, urged Congress to examine fundamental changes to the Federal Employees Health Benefits Program (FEHBP) that would both handle the problem presented by the catastrophic bills for federal retirees and get the overall program on a more solid foundation.

Cain explained that federal annuitants who are enrolled in the Blue Cross and Blue Shield government-wide Service Benefit Plan and who are also Medicare beneficiaries are already covered for nearly all of the benefits contained in the catastrophic bills plus inpatient additional benefits, such as 100 percent coverage of prescription drugs.

"If the catastrophic proposals become law, the total cost to Medicare-eligible annuitants for health insurance would rise substantially without any compensating increase in benefits," Cain said. This would be due both to the progressive "income-related premium" financing of the Medicare catastrophic bills and to the fact that retired government workers would pay a higher income-related premium than other retirees who receive a larger portion of their retirement

- over -

income from Social Security benefits, which are nontaxable. The additional costs to Medicare-eligible annuitants would likely exceed the $100 million in savings that the Blue Cross and Blue Shield Association estimates will accrue to the government and all enrollees in the FEHBP.

"Thus," according to Cain, "nearly everyone in the FEHBP -- the government, as an employer, and most employees and annuitants -- would benefit from the catastrophic proposal except the people they were designed to assist: the Medicare-eligible annuitants."

Cain cautioned against making piecemeal changes in the FEHBP in response to this problem. He emphasized that the FEHBP has long been in need of structural reform. The total costs of the program, and the widely fluctuating costs of individual plans, all point to structural flaws in the program. It is "an inherently unstable system".

In order to solve the problem presented by the catastrophic proposals, the relationship between FEHBP and Medicare will have to change. "A change in that relationship, however, without other changes in the total program could easily be the thread that unravels the fabric of the overall FEHBP." Providing Medicare-eligible annuitants with a low-cost Medicare supplemental plan or option would raise premiums for most other enrollees, would probably cause some current FEHBP plans to close, and would threaten the stability of the entire FEHBP.

In conclusion, Cain said that the Blue Cross and Blue Shield Association recommendations to this problem are twofold: one, revise the income-related premium under the Medicare catastrophic bill to equalize the burden on retired government employees and others; and two, initiate a comprehensive review of the structure of the FEHBP.

######

NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
1533 NEW HAMPSHIRE AVE., N.W., WASHINGTON, D.C. 20036 AREA CODE (202) 234-0832

STATEMENT OF THE NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
BEFORE THE SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS
SUBCOMMITTEE ON FEDERAL SERVICES, POST OFFICE & CIVIL SERVICE
ON PROVISIONS OF S. 1127
THE MEDICARE CATASTROPHIC BILL

Wednesday, September 23, 1987

Mr. Chairman, I am H. T. Steve Morrissey, President of the National Association of Retired Federal Employees (NARFE). I am accompanied this morning by NARFE's National Secretary, Mr. Gordon Brown, who is retired from the position of Assistant Director of OPM's Health Insurance Division and a recognized expert on the Federal Employees Health Benefits Program (FEHBP). Also with us today is our Legislative Representative Susan Shaw. On behalf of NARFE, we greatly appreciate this opportunity to appear before you and this Subcommittee to present our concerns regarding S. 1127, the pending Medicare Catastrophic Health Care Bill.

While we appear in direct representation of NARFE's own membership of almost half a million federal workers, retirees and survivor annuitants, I believe we speak for the more than 1.9 million civil service retirees and survivors when we say we have grave concerns for the impact this legislation will have on their health insurance—both cost and coverage.

Mr. Chairman, since early this year when legislation was first introduced to amend Medicare to provide "catastrophic" health care protection for older Americans, NARFE has joined with other retiree organizations in voicing our general concerns about the continued vulnerability of the elderly to the real health care catastrophe—the cost of long term nursing home and home health care needs, as well as the emerging new concept of basing Medicare premiums on income.

We still have those concerns, but we are here today to address two very real problems with the current Medicare catastrophic care bill, S. 1127, as it particularly affects federal annuitants. One specific problem is the fact that this legislation would impose an unfair premium penalty on federal retirees and survivors. It forces them to bear a disproportionate share of the cost of extended Medicare benefits which will generally duplicate health protection they already have. In short, federal annuitants stand to pay more than most other Medicare enrollees for benefits they do not need.

Let me first address the issue of premium inequity in this bill. It must be recognized that once again, federal retirees are faced with what can only be called a new tax. In just the past year, civil service retirees have been constantly jerked about by tax changes which have thrown earlier financial plans totally out of kilter. They have been stunned by the retroactive elimination of the tax code's three-year rule, then surprised by taxation of their new lump sum annuity option, and now this--a tax-based premium for catastrophic health insurance protection which they already pay for and have. And to add insult to injury, they will find themselves paying more for this unneeded coverage than their social security or private sector counterparts at identical income levels.

The inequity in premium computation under this bill results partially from the long-standing difference in tax treatment between social security and civil service (and certain other public service) retirement income. Social security cash benefits are tax preferred income, not subject to taxation until all income exceeds a certain level, and at most, only one-half of an individual's social security is ever taxable. Federal annuities are fully taxable at any and all income levels. This basic difference in the tax treatment of these two sources of government retirement benefits alone results in major differences in the supplemental premium for individuals with identical incomes.

In the case of an average civil service annuitant with an income of $14,000 per year, the pending Senate bill would assess a supplemental premium of $109.44 (in 1989). A private sector retiree with the identical $14,000 income, composed of the current average social security benefit supplemented by an employer-sponsored retirement plan income would pay a supplemental premium of $27.36. Here are two individuals with identical incomes being taxed for identical insurance protection, yet the federal retiree is paying four times more than the private sector retiree.

Beyond this difference in tax treatment of retirement income, the fact that S. 1127 would base the Medicare supplemental premium on the amount of taxes a person owes, creates an impossible situation. Every allowable deduction or income shelter provided for in the tax code plays through to this final calculation of a premium assessment.

Mr. Chairman, what I believe we are all seeking here is fairness. NARFE maintains that it is not possible to impose a supplemental premium fairly when that premium is based on one's tax liability. There must be a better way, and we hope to work with Congress to find it.

We have been asked numerous times, "How can this inequity be fixed?" Our dilemma is this--how do you fix something that is based on all of the ramifications of the tax code without fixing the tax code itself? And the Finance Committee staff has indicated that there is major opposition to tampering with the newly reformed tax code to fix an insurance premium computation that admittedly is imposed in an unfair manner due to the tax code.

A good example of a further complication of determining premiums based on tax liability could be found in a person retiring at age 65, electing the lump sum annuity option, most of which is subject to tax, and finding that retirement election compounds into a hefty increase in his or her Medicare health insurance premium for the year.

Other factors relevant to this discussion are the Government Pension Offset and the windfall reduction formula of the Social Security Act. These laws not only result in total elimination or major reduction of social security cash benefits to which a federal retiree might otherwise be entitled, but the income being denied is tax preferred income. This means that because of social security covered employment of their spouses or of their own, they have Medicare entitlement. But they are denied the accompanying tax-preferred social security income given others, and under the proposed supplemental premium formula, they can still end up paying more than others for Medicare.

I think our point is clear. We once again are faced with a compounding of tax liabilities that affect only public sector retirees. The culmination of all of these factors is that the federal retiree will pay more for catastrophic protection benefits than private sector retirees, even if he doesn't need it. It's another case of a tax imposed unfairly on federal retirees. We should not even be asked to support such a bill that is so patently unfair to those who chose to spend their careers in government service.

There are an estimated 1.2 million federal retirees and survivors over age 65 who immediately stand to be impacted unfairly by this legislation. Because of a lack of coordination of Office of Personnel Management (OPM) and Social Security Administration (SSA) data, we have been unable to determine just how many of these retirees receive social security cash benefits, and we have no way of knowing what total income an individual or family unit may have. But we do have figures on average civil service annuities as of last October, when the average retiree annuity was $13,566 and the average survivor annuity was $6,432.

From these figures and my own knowledge, I can assure you, Mr. Chairman, that these are not extraordinarily wealthy people. In very real terms, the burden this legislation would impose on these elderly people is weighty, and they are afraid. In just the past few days, they have received news about skyrocketing premiums for both their Federal Employees Health Benefits (FEHB) coverage, and Medicare Part B. They are just now being notified that FEHB rates will increase an average of 30 percent the first of next year, and last week they were hit with the Department of Health and Human Services' (HHS) announcement that Medicare's flat Part B premium may increase from $17.90 to $24.80 per month next year. This is $6.90 per month more than they currently pay for Part B before we even talk about adding catastrophic coverage. This is the largest annual Part B increase in the program's history, and is reportedly due to increased utilization and doctor's charges. And again, this is before adoption of any extended or catastrophic coverage in the Medicare program.

Mr. Chairman, beyond the premiums we know people are paying today for health insurance, we are dealing with estimates. And we are using conservative ones. What if we are wrong? It is entirely possible that these catastrophic premiums could double in the next couple of years. Congress' own General Accounting Office (GAO), as well as the Congressional Budget Office (CBO), have expressed deep reservations over the out-year costs that could be imposed on annuitants. Even more alarming are their findings that at currently anticipated premium levels, the average value of new benefits to be received exceeds average new premiums required only for those in the lowest income brackets.

We urge Congress to slow down and heed the information contained in these recent reports before imposing new benefits and new costs on the elderly that they may not want, may not need, and may very well not be able to afford.

Certainly, lessons should be learned from states which have offered catastrophic protection packages in the past. And one lesson learned is that unlimited coverage led to out-of-control costs, which in turn led to drastically scaled back benefits.

According to the GAO report, in three of the five states that have offered catastrophic care packages, total cancellation of that coverage has been necessary.

As I pointed out earlier, most federal retirees do not need this coverage as they already have catastrophic protection through the FEHB Program. And so they are understandably asking why they should be forced to pay more than others for benefits they do not even need.

Like millions of other older Americans, federal retirees can, and usually do, carry their employer-sponsored group health insurance into retirement. And it is not cheap. The average federal retiree with Standard Option Blue Cross-Blue Shield will pay $29.75 per month for that coverage next year.

This is the type of FEHB plan coverage that the majority of Federal annuitants use and find acceptable as a Medicare supplemental policy. While S. 1127 gives private Medigap policies a defined period of time to adjust their benefit and premium structures so as not to duplicate the new and expanded Medicare coverage, this charge is not extended to employer-sponsored health insurance such as the FEHB plans.

We beleive any catastrophic legislation passed by Congress must address the need for coordination between the FEHB program and Medicare. Plans should be available to supplement, not duplicate Medicare coverage. Unless and until this is done, Federal annuitants are trapped with higher Medicare premiums than others for duplicate benefits.

In this light, we are most appreciative, Senator Pryor of your efforts and those of your staff in attempting to correct these inequities.

Your proposed amendment instructing OPM to conduct a study and report to Congress on the feasibility of providing Medicare supplemental plans as options under FEHB is a good one which we could certainly support. We would hope to cooperate with OPM in such a study.

We believe the proposal to allow Federal annuitants to drop FEHB coverage and be granted a one time opportunity to reenroll in the program at a later date if Medicare benefits are reduced would cause more problems than it would solve. For the retirees themselves this is a burdensome proposition. We are dealing here with an aged population, all over age 65, who are already frustrated and perplexed by the in's and out's of insurance policy coverage, and enrollment and reenrollment rights. And beyond that, when their FEHB group insurance policies are part of their total retirement package, why should they be placed in the situation of having to give up this coverage? Certainly this amendment would also carry an administrative burden for the FEHB program and its individual plans.

For these reasons, we recommend that the FEHB program be adjusted and coordinated with Medicare and not waived in favor of the new Medicare catastrophic benefits. We believe, in fact, that if S. 1127 were adopted in its present form, it would be more advantageous for Federal annuitants to drop their Medicare Part B coverage altogether, and we would have to so recommend. This type of action, however, would only cause costs in the FEHB program to spiral for everyone -- the government employer, the retirees and the workers. At the same time, were thousands of Federal annuitants to drop out of the Medicare catastrophic program, other taxed Medicare enrollees would have higher costs.

Perhaps, the solution lies in giving Federal retirees the option of not participating in the new Medicare expanded coverage. The current Part B coverage interacts well with the FEHB program. We suggest that the option of allowing Federal retirees to retain the current mix of benefits is something that this body should explore.

In summary, we hope that the members of this body will work with us in correcting these inequities so that no elderly taxpayer is charged more for Medicare protection than another with identical income simply because of the source or tax treatment of their income.

Thank you again for scheduling this hearing and allowing an airing of views on the impact of this legislation on the Federal retiree population. I hope that it has been helpful. My staff and I look forward to working with you in solving the problems that have been presented here today.

NTEU

The National Treasury Employees Union

STATEMENT OF

ROBERT M. TOBIAS

NATIONAL PRESIDENT

NATIONAL TREASURY EMPLOYEES UNION

TO THE

SUBCOMMITTEE ON FEDERAL SERVICES,

POST OFFICE, AND CIVIL SERVICE

HONORABLE DAVID PRYOR, CHAIRMAN

S.1127, THE MEDICARE CATASTROPHIC HEALTH CARE BILL

U.S. SENATE

WASHINGTON, D.C.

SEPTEMBER 23, 1987

1730 K Street, N.W. • Suite 1101 • Washington, D.C. 20006 • (202) 785-4411

Mr. Chairman:

Thank you for the opportunity to express the view of the National Treasury Employees Union on S.1127, the Medicare Catastrophic Health Care bill.

NTEU certainly supports the intent of this legislation. We believe that action to provide catastrophic health care for the elderly is long overdue. Most federal insurance plans, in fact, have provided catastrophic coverage for employees and retirees alike for many years, and we feel strongly that this coverage should be available to the Medicare-dependent population.

There are, however, problems in this legislation that are unique to the federal employee. First of all, the bill contains a supplemental premium that is based upon tax liability. Because federal pensions are fully taxable, whereas social security benefits are exempt from taxes up to a certain income level, federal retirees would pay more for catastrophic coverage than their private sector counterparts.

In S.1127, any individual who receives Medicare Part B coverage (which is where the catastrophic coverage would be included), and who has federal tax liability of $150 or more, would be required to pay a supplemental premium based on that tax liability. The premium would be calculated at the rate of $1.02 per month per $150 of federal tax liability, after the first $150.

This formula has a very different effect on federal retirees than on social security recipients. Social Security recipients do not incur tax liability on their pensions unless their total income level is above $25,000 for a single individual, or $32,000 for a married couple. The amount to be taxed is the lesser of one-half of social security benefits for the year, or one-half of excess over the base amount.

A federal annuitant, on the other hand, pays taxes on his or her entire pension, regardless of total income. This means that a federal retiree's entire income would be subject to the formula for the supplemental premium. Under S.1127, a civil service retiree with an annuity of $14,000 per year would be subject to a supplemental premium of $7 per month, or $84 per year. A non-federal retiree with a $14,000 pension, $6,000 of which was social security, and $8,000 of which is from a private plan, would pay a supplemental premium of only $1 per month or $12 per year. The federal retiree winds up paying 7 times more than his social security counterpart with the same income, for the same insurance.

This situation points out, once again, the severe inequities that exist between social security and federal pensions. The best solution to this problem would be the enactment of legislation to treat federal pensions the same as social security for tax purposes. This would be a fair and equitable change in the law. It is simply wrong that those who spend their careers in federal service are put a at disadvantage, as opposed to other retirees, in retirement.

For the purposes of S.1127 an amendment should be adopted that would direct OPM, or another related agency, to calculate a separate supplemental premium for federal and postal retirees, based on the fact that Social Security benefits have different tax treatment than federal benefits.

The premium inequity existing in S.1127 is made even worse by the fact that most federal retirees already receive catastrophic health care coverage through the Federal Employee Health Benefits program. Most of the 440 different plans participating in FEHB provide catastrophic coverage to both employees and retirees. Federal retirees, therefore, if they remain in Medicare Part B, will paying more than any other participants for benefits that are largely duplicative. While many Medicare enrollees could drop their Medigap policies if extended Medicare coverage becomes available, federal annuitants would be afraid to do so, for once a retiree drops out of FEHB, re-enrollment is prohibited.

However, the cost of continuing both Medicare and an FEHB plan would be prohibitive for many retirees, and they might be tempted to drop the more expensive, but more extensive, FEHB. Should this happen, it would have adverse effects on the federal budget. It would substantially increase the amount of money needed to fund Medicare to cover the federal retirees who discontinue FEHB. It would also raise the premiums all plans must charge the remaining participants, employees and retirees alike. This would cost the government because the government provides a 60% co-payment, based on the average of the "Big Six" plans.

It is, therefore, to everyone's advantage to address the problems inherent in this legislation. There are a variety of potential solutions to these problems. FEHB plans, through legislation, could be allowed to provide Medicare Supplemental (Medi-gap) plans for their retirees. Congress could increase the government FEHB co-payment to retirees from 60% to 75%, essentially reimbursing retirees for duplicate coverage. A third solution would have a yearly entitlement reimburse the FEHB carriers for whatever is included in catastrophic coverage. This would end the duplication, and allow the plans to provide additional coverage for the increased money that federal retirees are spending. There are a variety of solutions; the key is to find a way to make this bill equitable for all the elderly.

Once again, thank you, Mr. Chairman, for holding these hearings. I am hopeful that this effort will serve to point out the seriousness of the problems with this legislation, and to provide some potential solutions. Through these efforts, I hope we can find a way to move this important legislation forward in a manner that is fair and equitable to all our retired citizens.

SF/slw/2517L

TESTIMONY

OF

LARRY WALIGORA

MANAGER OF

NATIONAL RURAL LETTER CARRIERS' ASSOCIATION

HEALTH BENEFIT PLAN

ON MEDICARE CATASTROPHIC PROTECTION ACT OF 1987

TO THE

FEDERAL SERVICES, POST OFFICE, AND CIVIL SERVICE SUBCOMMITTEE

OF THE SENATE GOVERNMENTAL AFFAIRS COMMITTEE

SEPTEMBER 23, 1987

Dear Mr. Chairman and Members of the Committee:

It is a pleasure to join you today and share with you our concerns about a piece of legislation that is moving very rapidly through the legislative process, the Medicare Catastrophic Protection Act of 1987, and the adverse effects this legislation would have on Federal retirees.

The Congress, through legislation, passed in 1959, the Federal Employees Health Benefit (FEHB) Program. With some fine tuning along the way, it has been an outstanding and overwhelming success as the largest employer sponsored health plan in the world. The Medicare Catastrophic Legislation which we are offering testimony on today would begin to seriously disrupt and dismantle this program which serves some 5 million Federal employees, retirees and surviving spouses, because it would simply offer those individuals identical coverage to that which they already have under the FEHB Program and force them to pay for something from which they will get no benefit. We predict that most Federal retirees will leave the Federal Employee Health Benefits Plan opting, instead, for only Medicare coverage. The proposed legislation would, thus, dramatically change and reduce the size of the universe of enrollees who are participating in the Federal Employee Health Benefits Program.

We also object to the catastrophic premium schedule in the proposed Senate Legislation because it is based on income taxes owed. That creates difficulties since Federal retirees receive a pension from the Civil Service Retirement Trust Fund and all of the money a Rural Carrier annuitant received would be considered taxable income under this legislation. An employee, who retired from the private sector with similar circumstances and length of service, would have a vastly different premium calculation for the same benefits. As an example, the average Civil Servant retiring at 62 years of age draws a monthly annuity of about $14,000 per year all of which would be used for the calculations of the catastrophic premium. Conversely, someone retiring under a private pension plan at age 62 with about $14,000 in retirement income would most likely be receiving $6,000 of the total in Social Security benefits none of which would be utilized in the calculation for setting the premium under this proposed legislation.

Let's examine the double coverage issue. Under our Federal Health Plan for the catastrophic provision to kick in, a member must accrue $1,000 in out-of-pocket expenses. Under the proposed Medicare Catastrophic legislation, a person must accrue $1,700 in out-of-pocket expenses. In the prescription drug area, our Federal plan picks up 100 percent of the cost for prescription medication if our retired member is also covered by Medicare Part B. Under the proposed Medicare legislation, a person must accrue $500 in prescription drug payments before Medicare would cover 80 percent of the cost of medication.

Under the Rural Carrier Plan, we waive the hospital deductible for Medicare eligible people. Under our plan, we waive the major medical deductible for retired members enrolled in Part B, and additionally we pay the two Medicare deductibles, both hospital and medical.

Let's look at the issues of changing the overall composition of the FEHB Plan members and what that would do to the various plans that participate in the program and, likewise, to the Federal Government's share of the cost of the Program. If the legislation being considered today becomes law and contains a premium structure similar to the current proposal with no allowance for the double coverage of Medicare eligible Federal retirees, then it is our prediction that massive numbers of retired enrollees will simply abandon their FEHB Plan and opt instead for Medicare coverage alone. Since Medicare is already the primary payer of medical expenses for these retired members, with the FEHB Plan serving as a so-called Medicare supplement, it would seem reasonably certain that our prophecy will be fulfilled.

This, in turn, will cause a tremendous change in the demographics of each FEHB plan and will result in a tremendous premium increase to remaining enrollees. Thus, in all likelihood, the Government contribution to the program would also increase substantially under the current FEHB funding mechanism. The only enrollees left to support the program would be active employees, those retired but not yet 65 years old and those retired, over age 65, with no Medicare eligibility. It would be a tremendous financial hardship for those plan members comprising the latter two categories to pay the resulting high FEHB Plan premiums.

We think that there are some things that need to be done to remedy the adverse impact of the proposed Medicare catasrophic legislation on Federal retirees. Such remedies are not simple, but, rather complex. First, some relief must be given to Federal retirees in the computation of the Medicare catastrophic premium to bring the cost in line with their private sector counterparts. Secondly, something must be done to eliminate the double coverage that Federal retirees will be forced to pay for under the Medicare Catastrophic Bill. We would like to suggest very strongly that the Senate insist that the Medicare catastrophic coverage be truly voluntary in so far as participation. For example, make the catastrophic coverage a separate and distinct part of the Medicare Program like Parts A (Hospital) and B (Medical) already are. Such a voluntary nature would at least ensure that Federal retirees with FEHB coverage could make an educated decision on what health coverage best suited their individual situations. However, if the Medicare catastrophic coverage remains mandatory as under the House version or is attached to Part B of Medicare as proposed by the Senate, there is no true voluntary choice. So, we would hope that the members of this Subcommittee could strongly urge the Chairman of the

Senate Finance Committee to insist that the voluntary nature of the coverage be retained in conference.

Mr. Chairman and Members of this Committee, we are very grateful that you have willingly taken your time to hold a hearing on these issues which are of vital importance to the members of the National Rural Letter Carriers' Association. Thank you very much. I would be more than happy to answer any questions that you may have.

News from Senator Barbara A. Mikulski of Maryland

100-1-55

RELEASE: IMMEDIATE
September 23, 1987

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TESTIMONY BEFORE THE SUBCOMMITTEE ON FEDERAL
SERVICES, POST OFFICE AND CIVIL SERVICE - SEPT. 23, 1987

MR. CHAIRMAN, I WANT TO THANK YOU FOR HOLDING THIS HEARING TO EXAMINE THE IMPACT OF THE CATASTROPHIC HEALTH CARE BILL ON FEDERAL RETIREES.

THERE ARE A GREAT MANY FEDERAL AND MILITARY RETIREES LIVING IN MARYLAND, AND I BELIEVE THAT I HAVE HEARD FROM A GOOD PORTION OF THEM IN THE PAST TWO MONTHS ABOUT THIS LEGISLATION.

FRANKLY, THEY FEEL THAT THEY HAVE BEEN OVERLOOKED IN THIS LEGISLATION AND THEREFORE WILL BE UNFAIRLY OVERCHARGED.

I SUPPORT THE OBJECTIVES OF THE CATASTROPHIC BILL BUT OBJECT T THE UNFAIR BURDEN PLACED UPON THIS GROUP OF RETIREES. MY CONSTITUTENTS' COMPLAINTS ARE JUSTIFIED. THE BILL DUPLICATES T CATASTROPHIC BENEFITS ALREADY PROVIDED TO FEDERAL, MILITARY AN STATE EMPLOYEES. THESE MEDICARE PARTICIPANTS WILL BE FORCED TO PAY SUBSTANTIAL INCREASES IN BOTH THEIR PREMIUMS AND TAXES FOR BENEFITS THEY ALREADY RECEIVE.

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THIS JUST ISN'T FAIR AND I AM HERE TODAY TO PLEDGE MY COOPERATION TO WORK WITH YOU AND OTHER CONCERNED SENATORS TO PROTECT THESE RETIREES FROM SUCH UNJUST TREATMENT.

I BELIEVE THAT WE HAVE A RESPONSIBILITY TO THESE RETIREES TO SEE THAT THEY ARE TREATED FAIRLY. WE MUST BRING THIS ISSUE TO THE FLOOR WHEN THE CATASTROPHIC BILL IS DEBATED. AT THAT TIME, I PLAN TO JOIN WITH YOU IN OFFERING AMENDMENTS THAT WILL CORRECT THIS EXISTING INEQUITY.

THE GOVERNMENT PROMISED ITS WORKERS THAT THEY WOULD HAVE A SOUND PENSION SYSTEM AND ADEQUATE HEALTH COVERAGE IN THEIR RETIREMENT YEARS. THEY WERE NEVER TOLD THAT THEY WOULD HAVE TO PAY ADDITIONALLY FOR HEALTH BENEFITS THAT WERE ALREADY INCLUDED IN THEIR CONTRACT.

THIS LEGISLATION, AS WRITTEN, CHANGES THE RULES OF THE GAME, AND I THINK THAT'S WRONG. IT'S NOW TIME FOR US TO CHANGE THE LEGISLATION.

THE HOUSE PASSED A CATASTROPHIC BILL THAT IS UNFAIR TO FEDERAL AND MILITARY RETIREES. I WANT TO WORK WITH YOU, MR. CHAIRMAN, TO MAKE VERY SURE THAT DOESN'T HAPPEN IN THE SENATE.

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